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ASSESSED VS. REAL VALUES OF REAL ESTATE IN PENNSYLVANIA

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The importance of adopting correct methods of assessing real estate for purposes of taxation is seldom recognized. Crowded into the background by more popular questions, this problem has so far failed to receive the attention from official and taxpayer to which it is entitled. Although local revenues are largely levied upon the basis of realty assessments, only the sporadic and unintelligent grumbling of the taxpayer sounds the warning against unfair methods. Some excuse for this neglect in the past may be found in the comparatively low tax rates, but no longer is this inattention excusable as the tax rates of our local governments rapidly grow with the expanding field of municipal activities. Increased tax rates make essential a study of the basis upon which they are levied—the assessed value of real estate.

This study of conditions in Pennsylvania is based upon an investigation of the methods of assessing real estate in forty-one counties. These counties include the more populous districts of the state, such as Philadelphia, Alleghany, Luzerne, Lackawanna, Westmoreland, Berks, Montgomery, Dauphin and Elk. The information was secured from county commissioners, assessors and taxpayers. An endeavor was made to discover: (1) what percentage assessed values bear to real values; (2) what are the causes of our present practice in assessing realty; (3) what arguments are used in Pennsylvania for and against the assessment of realty at full value.

The relation of assessed to real values of realty is dependent upon two factors: (1) the percentage at which the county officials endeavor to value property, and (2) the extent to which the assessors within the same county are successful in reaching the percentage adopted. As regards the first factor, the results secured show a marked absence of uniformity within the state. Of the forty-one counties—

4 claim	to assess real estate at 100 per cent of its value.
1 claims	to assess real estate at 90 per cent of its value.
1 claims	to assess real estate at 85 per cent of its value.
5 claim	to assess real estate at 80 per cent of its value.
2 claim	to assess real estate at 75 per cent of its value.
3 claim	to assess real estate at 70 per cent of its value.
4 claim	to assess real estate at $66\frac{2}{3}$ per cent of its value.
2 claim	to assess real estate at 60 per cent of its value.
4 claim	to assess real estate at 50 per cent of its value.
2 claim	to assess real estate at 40 per cent of its value.
4 claim	to assess real estate at $33\frac{1}{3}$ per cent of its value.
1 claims	to assess real estate at 30 per cent of its value.
1 claims	to assess real estate at $66\frac{2}{3}$ to 75 per cent of its value.
1 claims	to assess real estate at 50 to 80 per cent of its value.
1 claims	to assess real estate at 50 to 70 per cent of its value.
1 claims	to assess real estate at 30 to 50 per cent of its value.
2 claim	to assess real estate at 30 to 40 per cent of its value.
1 claims	to assess real estate at 33 to 40 per cent of its value.
1 claims	to assess real estate at 20 to 40 per cent of its value.

Two facts are emphasized by this table: first, a comparably small number of counties attempt to assess real estate at full value; and second, a great difference exists in the percentage adopted by the various counties in the state. Practically no similarity exists between the various counties.

Within the same county, the assessors are largely unsuccessful in assessing property at the percentage of real value adopted. The success in attaining the percentage desired is dependent upon the ability and experience of assessors. In most counties, the commissioners questioned the ability of the assessors. Where one assessor will value property at the desired percentage, a dozen others will vary widely from it. The result gives great dissimilarity between the various assessment districts within the same county. In but three counties was the belief common that any uniformity throughout the county prevailed. The counties in which the large cities are located have, however, a more nearly uniform assessment than rural counties in the sections investigated.

Such are the conditions at the present time in the forty-one counties investigated. Not only is there a great difference in the percentage of assessed to real value at which the various counties endeavor to assess, but there is an equally great difference within the same county as to the degree to which the nominal percentage is realized in the various districts.

The causes for the conditions above set forth are somewhat confused. Like most subjects connected with taxation much of the trouble is due to ignorance on the part of both officers and public. But the major portion of the trouble can be traced directly to three factors: (1) a deficient system of choosing and controlling assessors; (2) the character of assessments required; (3) lack of knowledge on the part of the taxpayers.

The most general cause given was that the assessment machinery is deficient. In Pennsylvania, outside of Philadelphia, the assessors are generally elected by the people to assess certain districts and are nominally under the direction of the county commissioners. Three evils manifest themselves in this system. In the first place, the commissioners, although nominally having control over the assessors, have little real authority. Such power as they do possess has been nearly lost as a result of non-use. The assessors neglect the instructions of the commissioners without suffering any penalty. The county commissioners stated in many cases that so long as the assessors are elected by popular vote it will be impossible to control them. The result naturally follows that each assessor is working independently of the others within the same county, and chaos results.

Secondly, the present method of choosing assessors by popular vote is weak. The average assessor assumes office handicapped by political and personal friendships and obligations which prevent him from doing efficient work. Being elected by the people, he feels responsible to them and pursues the course most certain to secure reëlection. Low assessments please the taxpayer, and the assessor to secure favor keeps the assessments as low as possible. No matter how intelligent the assessor may be, under such a system he is helpless if he desires reëlection. Furthermore, the assessor frequently feels obligated to the particular property owners who secured his election. The influence of the property owners is particularly bad when as in many cases it results in certain property being assessed at a lower percentage than other property in the same districts. For the past century the property owner has been exerting a steady influence upon the assessor to secure low valuation. This pressure not only has forced assessments exceedingly low in most counties, but makes any change to a higher rate very difficult to secure.

But were not the assessor handicapped in the manner outlined,

even then popular election would fail to provide a good system of assessment. The present method of electing by popular vote men who should know the many forces determining real estate values fails completely. Upon realty values, trained real estate brokers have difficulty in reaching a satisfactory conclusion. The average inexperienced assessor chosen by the people has much greater difficulty in making correct assessments. In order to be on the safe side he undervalues realty. Experienced, able assessors are required to make full valuations. This class of men the present system of popular election fails to provide.

A third defect in the present system is the fact that in Pennsylvania the county millage is levied upon assessments made by local township and borough officers. The result quite frequently is that assessors strive to keep their own districts rated below adjoining ones in order to throw the burden of county taxation upon the other townships or cities. This local effort to evade taxation does much to prevent 100 per cent assessment. The county commissioners endeavor to equalize the assessments of the various districts but in most cases frankly confess that their results are largely unsatisfactory. This difficulty is noted more in rural than in urban counties. Where a state tax is levied upon real estate this problem is even more pronounced and so far its solution has proved almost impossible. Added to local rivalry is that of the different counties so that state boards of equalization are required to give the various county assessments some semblance of equality. These boards, in the limited time at their disposal and with but meagre information concerning realty values in the various counties, can seldom do more than eliminate the more flagrant cases of unequal assessments. Such readjustments as they do make are based upon incomplete data. The method of equalizing assessments (either by state board or county commissioners as in Pennsylvania) has so far proved unequal to the situation.

In addition to the defects in the machinery of assessment, considerable emphasis was laid by county officials upon the complex character of the assessments required. It is pointed out in some counties where the population is increasing most rapidly that the values in suburban districts are largely speculative and are far above the real value of the property. Then in mining districts the claim is made that the assessor is unable to secure any adequate information concerning mineral lands. Correct valuations of such lands are

seldom secured. The same difficulty is urged in the case of manufacturing sites, the values of which are liable to many variations in some districts. The many uses for real estate puzzle the assessor greatly and call for experts to determine the values of different kinds of land and other real property.

But weak assessment machinery and the difficulty of the work do not alone explain the low assessment basis in most counties. The attitude of the voter has been a retarding influence. Whatever influence he has exerted has been in favor of the status quo. The ignorance of the taxpayer prevents any widespread movement for increasing the basis for assessment to one hundred per cent. The mass of the people are opposed to any change in present conditions. The belief is common that an increase in the rate of assessed to real value means a corresponding increase in the tax bill. This idea is partly justified by the tendency of taxing officials to retain the old millage when the valuation is raised. Unless these officials are required by public opinion to lower the tax rate when the proportion of assessed to real valuation is raised, the total tax bill will be raised. But while at present there is a considerable basis for the popular opinion, greater knowledge of the object of the assessment would remove this cause for low valuation. The assessment only determines the relative share which each individual shall pay; the tax rate determines his total payment. Were the assessors, however, to adopt full valuation of real estate they would arouse bitter antagonism on the part of the taxpayers. The majority of the commissioners apparently feel that the people do not desire any change.

Although few attempts have been made to remove the causes just given for present conditions, assessors and county officials are nearly unanimous in condemning the present system of low valuation. The commissioners of only five counties objected to full valuation. This objection was based upon the fact that in their counties when the valuation had been raised, the city, borough, and township governments failed to lower the tax rate, but utilized the increase in assessment to raise more money, much of which in the judgment of the commissioners had been extravagantly spent. So long as the different local governments will not lower the tax rate when the assessment is raised, the commissioners of these counties believe that it is better to keep a low assessment. In this way, the county officers endeavor to keep at a low figure the local taxes. In one county

the assessment was raised and, on the failure of the local districts to reduce their tax rates, was lowered to its original percentage of the real valuation. This argument is severely criticised by most county officials, who say that it is not the function of the county to limit the activities of the local governments and that the citizens themselves have the power to secure lower rates if they so desire.

The officials of the remaining thirty-six counties all believed in the full valuation of real estate. Some doubt existed, however, as to what constituted full valuation. A small minority of the assessors and commissioners were inclined to believe that the value of the property at forced sale should be adopted. Property so sold usually brings a price considerably less than its normal market value. If assessed at full value, the owner of property sold under forced sale would have paid taxes on a greater value than he actually received from the sale of the property. But it is very doubtful whether the forced sale valuation will be widely adopted. In actual practice it varies generally about 80 per cent of the full market value. It in reality constitutes one form of under-assessment and is by the admission of most of its advocates open to the same criticisms which apply to under-valuation.

The reasons usually given in favor of full valuation were the following: (1) it would give more equal and just assessments; (2) it would make easier the work of the assessor; and (3) it would secure a larger basis for local indebtedness under the state law.

Full valuation would give more equal and just assessments. On this question the great majority of assessors and county officials are in harmony with the best judgment of tax experts. Good methods of assessment are more important to the average citizen than a good tax system. The first requisite of a good revenue system is that taxes shall be equitable. Unless the assessments upon which taxes fall are fair, injustice results. Under low valuation, equitable assessments can seldom be secured. Injustice prevails both between taxpayers in the same district and between taxpayers in different districts.

In the first case, under a system of low valuation, the small property owner has not sufficient knowledge to know whether or not he is being unjustly treated. He knows little concerning the relation of assessed to real value. The very fact, in many cases, that his property is assessed at considerably less than full value prevents him

from becoming acquainted with the injustice of his own assessment. Many small property owners consider themselves fortunate when their property is nominally under-assessed, although were they to investigate conditions they might find themselves unjustly treated. The great majority of county boards believe that the large property owner is usually able to protect himself, but that the small property owner cannot be justly treated except under a system of full valuation.

But even should the property owner discover that his property is assessed at too high a percentage, he has little opportunity to have the injustice removed. Under the present system a parcel of land may be assessed far too high upon the basis of 50 per cent valuation. Should the owner protest, he will be asked by the tax officer whether he would be willing to sell the real estate at its assessed value. Since the parcel is assessed at less than full value and yet at a higher rate than the surrounding property the taxpayer is unable to protest the unfair valuation and so in many cases suffers a grievous injustice. The only practical remedy is full valuation.

Not only would full valuation eliminate much injustice between taxpayers within the same district, but it would also equalize different assessment districts. In the same city the densely populated sections and the better residence sections are assessed frequently upon a different basis, with the probability that the better residence districts are favored. The differences in the percentages of valuation used in assessing the various divisions of a county are especially marked in contrasting cities and townships. The tax officers in many counties believe that the cities are assessed at a lower rate than the country districts. The burden of county taxation would then be shifted upon the farmers. In other cases the cities certainly require a higher rate of assessment with the result that the city taxpayer suffers. Cities are frequently more advanced in assessment methods with the result that they are penalized for their progressiveness. Where also state laws limit the city tax rate to a certain millage, the assessment is frequently raised to enable the city to secure the funds made necessary by the increasing functions of the municipal government. In every case of this nature the city property owner has to pay more than his just share of the county's revenue. But even if difference in assessment between city and country is disregarded, wide variance is found to exist between the different rural districts in the same county. For instance in one county it was discovered that

farm lands on one side of the county were assessed at 30 per cent and those on the other side were assessed at 50 per cent. Such inequality as these figures indicate can only be remedied by full valuation. All differences in assessment between the various parts of a county would be eliminated by placing all assessments on the basis of 100 per cent.

Full valuation is more equitable through enabling the owner to ascertain the correctness of his assessment and through placing different districts upon an equality. In addition, it enables the assessor to accomplish his work more scientifically. Nearly every assessor interviewed believed that it would be easier to assess property at 100 per cent than at a lower figure. In order to assess real estate at 30 per cent, it is first necessary to assess at 100 per cent. Full valuation would enable the assessor to use unit values, tax maps, records, etc., much more easily in connection with his work. Only through the use of these tools can present methods of assessing real estate be improved.¹ If publicity with regard to the assessments is to be utilized successfully, as it has been in some cities, 100 per cent valuation will be necessary. There is no way whereby properties assessed at low valuations can be compared successfully. Full valuation forces the assessor to be more accurate. An over-valuation will bring a speedy protest and under-valuations will attract unfavorable comment as soon as the assessor's work is placed before the public. While some assessors dislike full valuation because it will force them to be more careful, the majority feel that the aid of publicity accompanying full valuation would amply repay their trouble and eliminate criticism. From the standpoint of the taxpayer and assessor alike, full valuation is desirable. It gives a more accurate and equitable basis upon which to levy the tax rate, and at the same time assists the assessor in performing his duty.

The third argument in favor of full valuation is the wider basis for local indebtedness which would thereby be secured. In Pennsylvania and in many other states the state law limits municipal indebtedness to a certain percentage of the assessed value of property within the city.² While there are many good reasons for objecting to present methods of restricting local indebtedness there is little

¹ Cf. *State and Local Taxation*, II, pp. 237-247; also *Somers System News*.

² Cf. Horace Secrist in *Journal of Political Economy*, April, 1914, pp. 365-383.

probability of a change in the near future.³ Municipal indebtedness at the present time in most districts is barely within the limit prescribed by law. Many cities are now unable to carry on further improvements deemed necessary. This restriction prevents the city of Philadelphia from making desired improvements. Under the present system if our cities and local districts are not to be hindered in their attempt to make improvements it will be necessary to raise assessments to the basis of 100 per cent valuation. This step is one already being considered in many cities. One of the leading arguments advanced in favor of higher assessments in several of the leading cities in Pennsylvania during the last two years was that thereby more municipal indebtedness might be incurred.

Two minor arguments in favor of full valuation were advanced. In the first place some tax officials believed that the lower millage rate made possible by assessment at real value would tend to lessen the criticism of taxes. Where the assessment is low and the tax rate high, there is an inclination to look only at the tax rate and on that basis oppose all increases whether or not such increase may be necessary. In the second place many commissioners stressed the importance of enforcing the law, which in Pennsylvania provides for full valuation. The continued violation of the state law by elected officials tends to break down respect for all tax laws in their opinion. Since the law prescribing full valuation is on the statute books it should be enforced.

The conditions outlined above, showing a notable failure on the part of our assessing system to value property equitably, demand attention. Low valuation results in discrimination between different taxpayers and different sections of the same county or state. It makes more difficult the work of the assessor. It restricts unfairly municipal indebtedness. That the advantages of full valuation are now recognized by the great majority of assessors and county commissioners is an excellent sign for the future. Three obstacles retard progress: the deficient method of choosing and controlling local assessors, the complex character of the work, and the ignorance of the voter. The latter two can be removed only by education. The first can be remedied by a change in the method of choosing assessors. This important office should be taken out of the hands of inexperienced

³ Cf. Charles F. Gettemy in *National Municipal Review* for October, 1914, pp. 682-692.

officers elected by districts and placed in charge of skilled realty experts appointed by the county commissioners to serve on good behavior. Good methods of assessment, such as publicity, tax maps, coöperation of assessors and realty brokers, already adopted in the city of New York and in certain cities in Pennsylvania, could then be practiced throughout the state. Even the obstacles outlined have not prevented five counties from raising their ratio of assessed to real valuation. With the adoption of the change suggested in the selection of assessors it is not too optimistic to look forward in the near future to the full valuation of real estate practically throughout Pennsylvania.